

Message Text

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ACTION OPIC-12

INFO OCT-01 EA-11 ISO-00 EB-11 COME-00 L-03 OMB-01 TRSE-00

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FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 4477

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E.O. 11652: N/A

TAGS: ENRG, TH

SUBJECT: THAILAND PETROCHEMICAL COMPLEX; PNB LOAN

DEPT PASS OPIC, ATTN ARVIN KRAMISH, AND COMMERCE, ATTN OIM
AND MAJOR PROJECTS DIVISION

BEGIN SUMMARY:

OPIC HAS ASKED FOR EMBASSY'S COMMENTS ON DESIRABILITY OF ITS
INSURING US BANK LOAN TO THAI ENTREPRENEUR, K.Y. CHOW, TO
FINANCE HIS EQUITY PORTION OF MAJOR PETROCHEMICAL COMPLEX, IN
WHICH JAPANESE HAVE IMPORTANT INTERESTS. EMBASSY FORESEES
NO OBJECTIONS TO THIS LOAN INSURANCE. END SUMMARY:

1. OPIC, THROUGH COPIES OF RECENT MEMORANDA, REQUESTED EMBASSY
COMMENTS ON SUBJECT PETROCHEMICAL PROJECT, AND SPECIFICALLY ON
REQUESTED OPIC INSURANCE OF PROPOSED \$7.5 MILLION LOAN BY
PHILADELPHIA NATIONAL BANK (PNB) TO K.Y. CHOW, TO FINANCE POR-
TION OF THAI EQUITY IN TWO OF FOUR "DOWNSTREAM" COMPANIES IN
PROJECT. THESE DOWNSTREAM COMPANIES, WILL WILL UTILIZE
ETHYLENE/PROPYLENE PRODUCED BY "UPSTREAM" COMPANY'S
NAPHTHA CRACKER FOR PRODUCING VARIOUS PETROCHEMICAL
PRODUCTS, ARE INITIALLY 50/50 THAI-JAPANESE JOINT
VENTURES, WITH CONSTRUCTION TO BE JAPANESE-FINANCED.

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OPIC EXPRESSED PARTICULAR INTEREST IN WHAT

BENEFITS WOULD INCUR TO THE U.S., IN VIEW OF JAPANESE FINANCING; DESIRABILITY OF BEING ASSOCIATED WITH PROJECT IN VIEW OF TARNISHED JAPANESE IMAGE IN THAILAND; IN WHAT ASSURANCES THERE ARE THAT PROCEEDS OF PNB LOAN WOULD NOT GO FOR JAPANESE CAPITAL EQUIPMENT; AND WHETHER PROJECT WOULD SEEM ECONOMICALLY VIABLE WERE IT NOT FOR EXCESSIVE RTG PROTECTION.

2. EMBASSY'S KNOWLEDGE OF PROJECT IS BASED MAINLY ON PRESS REPORTS, PLUS RECENT CONVERSATIONS WITH K.Y. CHOW, LOCAL PNB REP, AND VISITING REPTS OF AMERICAN COMPANIES, KELLOGG ENGINEERING AND LUMMUS CORP., WHICH SUBMITTED BIDS, EARLIER THIS MONTH FOR CONSTRUCTION OF UPSTREAM NAPHTHA CRACKER (ONLY OTHER BIDDER WAS JAPANESE TOYO ENGINEERING, WHICH IS AFFILIATED WITH LUMMUS). ALSO, EMBASSY HAS NOT CONDUCTED ANY RECENT RESEARCH ON PLASTICS MARKET AND POTENTIAL IN THAILAND (ALTHOUGH WE UNDERSTAND K.Y. CHOW HAS AT LEAST HAD ACCESS TO ONE SUCH RESTRICTED STUDY CONDUCTED FOR RTG BY UNIDO IN 1972). WE ARE THUS UNABLE MAKE MORE THAN GENERAL COMMENTS ON PROBABLE ECONOMIC VIABILITY OF PROJECT.

3. WE ARE NOT AWARE OF ANY EXCESSIVE PROTECTION GIVEN BSR RTG TO THIS PROJECT. IN AWARDED PROMOTIONAL CERTIFICATES, BOARD OF INVESTMENT (BOI) IS PERMITTED BY LAW TO GRANT VARIOUS FORMS OF INCENTIVES, AND GUARANTEES, EXEMPTIONS, "BASED ON JUSTIFICATION OF NEEDS;; THESE ARE NEGOTIATED AND ARE GRANTED ON A CASE-BY-CASE BASIS. MR. CHOW STATES THAT THIS JOINT VENTURE WITH SHELL WILL HAVE NO SPECIAL PROTECTION ON THE UPSTREAM PORTION OF THE PROJECT, AND THAT THE BOI AGREED TO PROVIDE IT ON A COST-PLUS BASIS, THUS GUARANTEEING A "REASONABLE PROFIT." IMPORTS AND THUS CONSUMPTION OF PLASTICS MATERIALS IN GENERAL HAVE BEEN RISING OVER PAST FEW YEARS, AND CONSUMPTION WILL PRESUMABLY CONTINUE TO INCREASE AS THAILAND'S INDUSTRIAL ECONOMY DEVELOPES, BUT WE ARE UNABLE COMMENT SPECIFICALLY ON PROBABLE MARKET FOR PROJECTED PRODUCTION CAPACITY FOR SEPARATE PETRO-CHEMICAL PRODUCTS. LOCAL PNB REP STATES HE HAS FORWARDED TO PHILADELPHIA COPIES OF EIGHT-YEAR INCOME AND CASH FLOW PROJECTIONS PREPARED BY MITSUI (CHOW'S JOINT VENTURE PARTNER IN THESE TWO DOWNSTREAM COMPANIES); PRESUMABLY THESE LIMITED OFFICIAL USE

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COULD BE MADE AVAILABLE TO PIC. MR. CHOW CONTENTS THAT LARGE COMPANIES SUCH AS SHELL, MITSUBISHI AND MITSUI WOULD NOT HAVE DECIDED TO INVEST SUBSTANTIAL SUMS IN THIS PROJECT IF THEY WERE NOT CONVINCED IT WOULD BE ECONOMICALLY VIABLE.

4. EMBASSY'S UNDERSTANDING OF PROJECT'S ORGANIZATIONAL STRUCTURE IS THAT PROPOSED PNB LOAN WOULD BE USED STRICTLY

TO FINANCE MR. CHOW'S PORTION OF THAI EQUITY IN TWO OF
DOWNSTREAM COMPANIES, AND NOT RPT NOT FOR FINANCING PUR-
CHASE OF CAPITAL EQUIPMENT FORM JAPAN OR ELSEWHERE. WHILE
UPSTREAM CONSTRUCTION AND EQUIPMENT WILL BE BASED ON INTER-
NATIONAL TENDER, DOWNSTREAM PORTION, OTHER THAN LOCAL CONS-
TRUCTION COSTS, WILL BE FINANCED THROUGH JAPANESE SUPPLIER
CREDITS. ALTHOUGH PRESUMABLY MOST CAPITAL EQUIPMENT WILL
THUS BE JAPANESE, IT HAS NOT BEEN UNHEARD OF FOR JAPANESE
COMPANIES TO
PROCURE SOME NON-JAPANESE EQUIPMENT. PNB REP
POINTS OUT THAT BECAUSE OF PROJECT'S ORGANIZATIONAL STRUCTURE,
ITS LOAN TO CHOW IS ONLY METHOD IN WHICH A U.S. INSTI-
TUTION CAN PARTICIPATE IN THE FINANCING OF THIS MAJOR UNDER-
TAKING.

5. U.S. COMPANIES WILL UNDOUBTEDLY RECEIVE SOME INDIRECT
FINANCIAL BENEFITS IN FORM OF ROYALTIES ON TECHNOLOGY WHICH
HAS BEEN LICENSED TODOWNSTREAM JAPANESE COMPANIES. ALSO,
SINCE ONLY AMERICAN OR AMERICAN-AFFILIATED COMPANIES HAVE
SUBMITTED BIDS ON HUNDRED MILLION DOLLAR UPSTREAM CRACKER
CONSTRUCTION, IT APPEARS CERTAIN THAT SOME IMPORTANT
FINANCIAL BENEFITS WILL INURE TO U.S. THERE.

6. ALTHOUGH JAPANESE INVESTORS IN GENERAL HAVE BEEN TAKING
THEIR LUMPS IN LOCAL MEDIA AND AMONG STUDENTS IN RECENT
MONTHS, AND HAVE BEEN TRYING TO MAINTAIN LOW POSTURE,
THIS SEEMS TO HAVE HAD LITTLE EFFECT ON THEIR ACTUAL
OPERATIONS. OTHER AMERICAN COMPANIES ARE ASSOCIATED WITH
JAPANESE COMPANIES IN THAI VENTURES, FOR EXAMPLE IN OFF-
SHORE OIL EXPLORATION, WITH NO ADVERSE EFFECTS. EMBASSY
DOES NOT BELIEVE THAT PNB'S OR OPIC'S INDIRECT PARTI-
CAIPATION IN THIS THAI-JAPANESE-BRITISH/DUTCH PROEJCT WOULD
BE IN ANY WAY UNDESIRABLE FROM AN IMAGE STANDPOINT.
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